



USFR MEMORANDUM NO. 216

TO: School District Administrators; County School Superintendents

FROM: Magdalene D. Haggerty, Office of the Auditor General
Vicki G. Salazar, Arizona Department of Education (ADE)

DATE: September 21, 2005

SUBJECT: School District Audits (Supersedes USFR Memorandum No. 204 and amends USFR Memorandum No. 195)

Districts that expend \$500,000 or more in federal awards are subject to the requirements of the *Single Audit Act Amendments of 1996* and the implementing regulations of the Office of Management and Budget (OMB), including OMB Circular No. A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and are required to obtain an annual single audit.

Districts subject to the *Single Audit Act Amendments of 1996* must submit the audit reporting package and data collection form, as required by OMB Circular No. A-133, within 9 months after fiscal year-end or 30 days after the reports are issued to the district, whichever is sooner. (A copy of the data collection form can be found at www.whitehouse.gov/omb/grants/grants_docs.html.)

Arizona Revised Statutes (A.R.S.) §15-914, requires any school district not subject to the *Single Audit Act Amendments of 1996* to comply with the following requirements. Beginning in FY 2003-04, if a school district has an adopted expenditure budget of \$2 million or more for the Maintenance and Operation (M&O) Fund, the district shall contract for an annual financial statement audit. Beginning in FY 2004-05, if a school district has an adopted expenditure budget of less than \$2 million but more than \$700,000 for the M&O Fund, the district shall contract for a biennial financial statement audit (e.g., an audit of FY 2003-04 and FY 2004-05 performed after the 2nd year). Districts must submit the annual or biennial financial statement audit reports and Uniform System of Financial Records (USFR) Compliance Questionnaire (biennial audits require the questionnaire to be completed only for the later year) within 9 months after the applicable fiscal year-end.

Districts having an expenditure budget of less than \$700,000 for the M&O Fund are subject to procedural reviews performed at the discretion of the State of Arizona, Office of the Auditor General. However, a financial statement or single audit may be accepted in lieu of a procedural review if the audit is performed in accordance with *Government Auditing Standards* and the audit firm submits a completed USFR Compliance Questionnaire. If such an audit is performed, the audit costs cannot be charged to federal programs or used to increase the district's base support level.

Districts in a multi-year contract for a single audit that may end up below the single audit threshold in any of the remaining years under the contract may submit a contract amendment to the State of Arizona, Office of the Auditor General to change the type of audit. Likewise, districts in a multi-year contract for two biennial financial statements audits that adopt an expenditure budget of \$2 million or more in the later years of the contract must submit a contract amendment to change the frequency of the audits. Districts should refer to USFR Memorandum No. 195 for additional guidance on school district audit requirements, a sample request for proposals, and a sample audit contract. For those districts contracting for a financial statement audit rather than a single audit, the sample contract language should be modified accordingly.

The USFR Compliance Questionnaire includes guidelines for testing procurement and student attendance reporting in accordance with A.R.S. §§15-213 and 15-914. These guidelines have been revised to clarify compliance requirements in those areas. Additional questions and guidance for testing GSA contracts, JTED and TAPBI Program requirements, and National School Lunch Program matching requirements have also been included. Other minor edits have been made throughout the questionnaire.

The enclosed USFR Compliance Questionnaire dated 9/05 will supersede the questionnaire dated 12/03 that was included in USFR Memorandum No. 204. **Auditors must use the 12/03 questionnaire for FY 2003-04 audits and use the new, enclosed questionnaire for FY 2004-05 audits and thereafter.**

If you have questions or need assistance, please call the Office of the Auditor General, Accounting Services Division at (602) 553-0333, or ADE School Finance Operations Unit at (602) 542-5695.

MDH/VGS/gr

Enclosure